

Committee on Ways and Means

Questions and Answers – Mexico Totalization Agreement

What are totalization agreements?

- **Social Security “totalization” agreements permit the United States and another country to coordinate their Social Security programs.** The Social Security Administration has totalization agreements in force with 20 countries, including Canada, Australia and most of Western Europe.
- **Totalization agreements help American workers and American business.**
 1. They eliminate dual Social Security taxes when Americans work overseas for U.S. companies and protect benefits for workers who divide their careers between two countries.
 2. As a result, American workers and their companies save approximately \$800 million annually in foreign Social Security taxes.

What is the current status of the signed U.S.-Mexico totalization agreement?

- **A totalization agreement with Mexico has not been approved.** The agreement signed by the Commissioner of Social Security and the Director General of the Mexican Social Security Institute on June 29, 2004 is the first step in an approval process. The State Department and the White House must review the agreement in order to determine whether the agreement should be sent to Congress for approval.
- **Congress has the final say.** Should the President send a proposed totalization agreement with Mexico to Congress for approval, Congress then has 60 days during which either the House or Senate are in session to consider the agreement and to disapprove it if necessary.

Why an agreement with Mexico?

- **Mexico is the U.S.’s second largest trading partner**, and a U.S.-Mexico totalization agreement would be consistent with one of the goals of the North American Free Trade Agreement to strengthen cooperation and friendship. The U.S. has signed totalization agreements with seven of its top ten trading partners. Many of these agreements have been in effect for nearly two decades.
- A U.S.-Mexico totalization agreement would save about 3,000 U.S. workers and their employers about \$140 million in Mexican social security taxes over the next 5 years.

Who would receive benefits who isn’t receiving them now?

- Mexican workers who previously lacked the required 40 quarters of coverage could qualify with as few as 6 quarters of coverage (benefits would be prorated to reflect only credits earned in the U.S.).
- More family members of Mexican workers would become entitled, because the agreement waives rules that prevent payments to non-citizen dependents living outside the U.S.
- According to SSA, approximately 50,000 U.S. and Mexican workers would receive a pro-rated “totalized” benefit from Social Security after the first five years of the agreement (this number does not include those newly eligible for family benefits).

How would an agreement affect Social Security's ability to pay benefits?

- Social Security's official scorekeepers estimate a U.S.-Mexico agreement would have a negligible impact on the Social Security Trust Funds. Five-year costs to the U.S. Social Security system are estimated at \$525 million. These costs are for additional benefits to eligible U.S. and Mexican workers and reduced Social Security tax contributions from foreign companies and their employees. Even though the SSA actuaries predict negligible costs, they also say the estimates are "subject to considerable uncertainty." If the SSA actuaries underestimated the number of new beneficiaries by more than 25 percent, the costs would no longer be negligible.

What effects would a totalization agreement with Mexico have on unauthorized immigrants?

- **A totalization agreement would not change current law prohibiting payment of benefits to persons living illegally in the United States.**
- **A totalization agreement would not create a substantial enticement for Mexican citizens to work illegally in the United States.** The recently enacted "Social Security Protection Act of 2004" (P.L. 108-203) strengthened the law to prevent those who only worked illegally from receiving benefits.

What happens next?

- Should the President submit a proposal for a U.S.-Mexico totalization agreement, Congress then has 60 days during which either the House or Senate are in session to consider the agreement and to disapprove it if necessary.
- The Ways and Means Subcommittee on Social Security would then hold public hearings so that Congress and the American people are assured whether the agreement is in the best interest of our nation's workers and their families, as well as the millions of seniors and individuals with disabilities who depend on benefits. In addition, we must have a firm grip on the costs and effects before moving forward; otherwise, we risk draining billions of dollars from Social Security and worsening the program's financial challenges.